

TO: Directors and Administrators of State Agencies

FROM: Chuck Swysgood, Budget Director
Office of Budget and Program Planning

DATE: April 15, 2002

SUBJECT: **Guidelines for Executive Budget Submission of Enterprise and Internal Service Funds**

Introduction

This memorandum provides guidance on the submission of the 2005 biennium budget requests for certain proprietary funds. Information as required by this memorandum applies to certain proprietary funds in accordance with 17-7-123(6), MCA:

“17-7-123. Form of executive budget. The budget submitted must set forth a balanced financial plan for funds subject to appropriation and enterprise funds that transfer profits to the general fund or to accounts subject to appropriation for each accounting entity and for the state government for each fiscal year of the ensuing biennium. The base level plan must consist of:...

(6) **a report on:**

(a) enterprise funds not subject to the requirements of subsections (1) through (5), including retained earnings and contributed capital, projected operations and charges, and projected fund balances; and

(b) fees and charges in the internal service fund type, including changes in the level of fees and charges, projected use of the fees and charges, and projected fund balances. Fees and charges in the internal service fund type must be approved by the legislature in the general appropriations act. Fees and charges in a biennium may not exceed the level approved by the legislature in the general appropriations act effective for that biennium.”

If you have questions regarding these guidelines, please contact Matt Bugni, Executive Budget Analyst, at ext. 4899. The State Lottery (06001) and Liquor Division (06005) are enterprise funds subject to requirement of subsections (1) through (5) of 17-7-123, MCA. Therefore, this memo is not pertinent to the Lottery or the Liquor Division.

Background

Passage and approval of HB 576 during the 1995 regular legislative session removed proprietary accounts from the list of accounts requiring appropriations and changed the emphasis of legislative oversight from dollar appropriations to a more thorough examination of rates, charges, and fund balances. Legislation during the 1999 regular session returned the Lottery and the Liquor Division accounts to HB 2 appropriations.

Scope

Between Aug 23 and Aug 31, 2002, you will submit to the OBPP the information regarding proprietary accounts requested to be funded by non-HB 2 proprietary funds in the 2005 biennium. The request schedules, supporting documentation entered in MBARS, and the internal service fund rates will be reviewed and analyzed by your budget analyst and summarized in the executive budget. The budget request instructions [no later than August 12] will contain more information on submitting budget requests.



Analysis Policy

Enterprise Funds (fund “060xx”)

The emphasis of this reporting format is on the analysis of fund balances.

For information and reporting only purposes, name the individual charge, and/or the charge amount, and the means by which the charge is set (statute, administrative rule, administrative formula) in the Enterprise Fund template. It is the responsibility of each agency that manages an enterprise fund to justify and maintain documentation to support compliance with any charges. State the total annual revenue by each major charge, and aggregate the revenue received from minor charges.

Internal Service Funds (fund “065xx”)

The emphasis of this reporting format is on the analysis of fees and charges.

Statute requires that fees and charges in the internal service fund type must be approved by the Legislature in the general appropriations act. The Legislature will use your schedule and supporting narrative to make decisions on the internal service fund rates. The Legislative Fiscal Division (LFD) will print the files of the Governor’s Executive Budget proprietary information, plus its own analysis, in its Budget Analysis book. This book will be the working document during the session for reviewing and approving internal service rates.

Presentations to the Legislature will be structured around discussions of the base year rates in effect at fiscal year end (FYE), and changes to those rates. Any changes to the base year rate will be discussed in decision packages that present rationale for the changes to the base rate.

Please note that 17-7-123, MCA, states that the Legislature approves the maximum fees a program can charge during the biennium and that the program cannot charge more than the Legislature approved. The law does not require the Legislature to approve the actual rate a program will charge at any point during the biennium. Valid circumstances may exist to request a legislatively-approved rate higher than the rate a program anticipates charging.

It is the responsibility of each agency that manages an internal service fund to justify and maintain documentation to support “rates commensurate with costs” compliance. Report the total annual revenue by each major charge/rate, and aggregate the revenue received from minor charges/rates.

Administering agencies are advised to consider the requirements of OMB Circular A-87 in the development of rates applicable to federal programs. The responsibility for ensuring compliance with federal A-87 requirements rests with the administering agency.

Specific Guidelines

The proprietary funds information and budget requests will be consolidated in one separate, new publication for the Governor’s 2005 biennium Executive Budget. This will enable changes designed to assist legislators in understanding programs and services.

1. **A Word Table will be used to present the enterprise account charges and the internal service fund rates and customer charges.** There are two templates in guest\proprietary\--one for an enterprise account and one for an internal service account. These will replace the boxes that appeared at the bottom of the tables in prior biennia. ‘Save As’ proprietary\xxxx\06yyy.doc where xxxx is your agency code and yyy is the balance of your account. For each completed fiscal year, the rate actually charged at FYE should be listed for each separate fee or charge and for each year shown on the table. For incomplete and future fiscal years, identify the anticipated rates to be charged to the customers
2. **MBARS will be used to submit the narrative section of the proprietary account in August.** Required sections are outlined below. Because the MBARS headings and mandatory/optional notations will not be changed to reflect the December 2001 action of the Legislative Finance Committee, please follow these instructions rather than the MBARS headers. [For your information, the MBARS titles under which the text is to be entered are noted below in *italics*].
 - a. **Program Description.** [*MBARS Title is Proprietary Program Description. This is a Mandatory field for internal service and enterprise funds.*] For each fund, briefly explain the services provided; the statutory authority for the program to provide the service; the customers served by each service (mandated/non-mandated); and any other points of interest about the fund for the period covered by the data (previous,

current, and budget request biennium), such as: 1) any program organizational changes, 2) major service changes, or 3) major customer base changes.

- b. **Revenues, Expenses, and Fund Equity.** [MBARS Title is *Proprietary Revenues and Expenses. This is a Mandatory field for internal service and enterprise funds. You will have to create your own sub-headers within this Title for Revenue Description, Expense Description, Working Capital Discussion, and Fund Equity and Reserve Fund Balance.*]

- (1) **Revenue Description.** Describe all sources of revenues deposited into the fund. For each fee or charge separately billed to customers, include a brief description of: 1) the services provided in exchange for customer payments; 2) the customer base for the service funded by the fee, if different than the customer base for the fund; 3) the historical and projected trends associated with volume of services, explaining any projected changes in service volumes; 4) base year funding, by fund type, for customer payments made to the program; 5) the SABHRS accounts used by the customers to record the expenditures for payment of the fee or charge (6xxxx); and 6) the SABHRS account used by the program to record revenues received from customer payments (5xxxxx).
- (2) **Expense Description.** Describe all major classes of expenses used to support the services provided by the program. In doing so, identify and briefly explain: 1) the major cost drivers of each separate rate; 2) factors that contribute to uncertainty in forecasting expenses for major cost drivers; 3) assumptions used to anticipate future costs of major cost drivers; 4) non-typical and one-time expenses that appear in the data for historical and future years shown on the Excel spreadsheet; 5) variations in expense patterns; and 6) the number of FTE funded by the Legislature for the base year.
- (3) **Working Capital Discussion.** Justify the amount of working capital needed to maintain on-going operations. Explain agency management objectives for maintaining costs commensurate with fees charged. Report how revenue and expense cycles factor into the determination of working capital. In the case of internal service funds, explain how working capital is considered in the determination of the rates. When calculating working capital, do not include non-cash items in this calculation.
- (4) **Fund Equity and Reserved Fund Balance.** Describe, for all years, any requirements the program has to reserve fund balance, and a description of the major balance sheet accounts (assets and liabilities) that contribute most significantly to any fund equity balance, including the amount of fund equity attributed to working capital. The difference between the Total Fund Equity and the Reserve is to be entered on the Excel spreadsheet line "Unreserved Fund Balance." Explain management objectives to increase/decrease/maintain fund balances as compared to the FY 2002 base year fund balance.

- c. **Rate Explanation.** [MBARS Title is *Proprietary Rate Explanation. This is a Mandatory field for internal service and enterprise funds.*]

Programs funded with internal service funds will describe very specifically the type of rate being requested (such as percentage of personal services, a fixed amount of working capital, a fixed rate, or a maximum amount of costs that can be allocated to customers). This may be one single, short statement. To the extent necessary but not repetitive, also explain any instances where the rate of fees requested is different than the rate of fees and charges actually billed to the customers, why the requested rate is the most logical structure, how the rates were determined, the allocation methodology for distributing indirect costs to separate rates, and any requested changes in the rate structure. All changes from the rates charged at FYE of the base year will be approved via decision packages.

Supplemental Schedules. For each year shown on the Excel spreadsheet and FOR EACH SEPARATE RATE, provide schedules that show: 1) the actual rate(s) and structure charged or anticipated to be charged (if these are different, explain why they are different); 2) the legislatively-approved rate and structure; 3) the actual or forecasted volume of services; 4) direct costs broken out into first level SABHRS expense accounts and designated with the percentages of direct costs that are fixed or variable costs; and 5) the allocation of indirect costs to separate rates.

- d. **Significant Present Law.** [MBARS Title is *Proprietary Significant Present Law. This is a Mandatory field for internal service funds only.*]

- (1) Within MBARS decision packages (DPs), describe all significant present law (PL) adjustments (those which have an effect on the requested rate); and
- (2) Explain the impact of each PL DP on the rate charged at FYE and on the unreserved fund balance of the base year. Since the primary purpose for including decision packages in the budget request is to justify changes to the rate charged at FYE of the base year, decision packages that do not identify the impact on the rate will not be considered for approval.

e. **New Proposals.** [MBARS Title is *Proprietary New Proposals. This is a Mandatory field for internal service funds only.*]

- (3) Submit all new proposal (NP) adjustments (those that change a current service or those that change fund types) within MBARS decision packages (DPs); and
- (4) Explain the impact of each NP DP on the requested rate and on the unreserved fund balance. Since the primary purpose for including decision packages in the budget request is to justify changes to the rate charged at FYE of the base year, decision packages that do not identify the impact on the rate will not be considered for approval.
- (5) If there is a funding switch new proposal for the program, complete the Excel spreadsheet without showing the funding switch. Rather, describe fully in the new proposal narrative the total dollar amount, impact on the rates, and justification for the request within MBARS.

3. **Proprietary funds will be reported in the Governor's Executive Budget in a format that ties to the Comprehensive Annual Financial Report (CAFR).** These tables will be available early in September on the guest directory with downloaded FY 2000 and FY 2001 adjusted data, FYE 2002 actual SABHRS, budgeted FY 2003, and requested FY 2004 and FY 2005 data from your MBARS budget request. It will be each agency's responsibility to review and verify the accuracy of these tables. In September, the OBPP and the LFD will work with you on making needed adjustments to these table(s).

NOTE: In a few cases, the CAFR combines more than one fund together for reporting purposes. When this occurs, separate Excel tables will be prepared for each fund. When all Excel tables are combined as they are in the CAFR, the table sums should tie to the CAFR. For example, the CAFR lists information for "Buildings and Grounds," which combines funds 06528 (Rent and Maintenance) and 06541 (Grounds Maintenance & Snow Removal).

4. **Information to Assist in the Preparation of the Report.** [MBARS Title is *Proprietary Other Issues. This is an Optional field for both Internal Service and Enterprise funds.*]

These proprietary funds use a full accrual basis of accounting, i.e., non-cash issues are captured. Projected 2005 biennium expenses are to reflect the FY 2002 actual experience, with two exceptions: (1) project personal services with no vacancies for the current FTE level using the October 2003 pay plan amounts each year; and (2) independent and detailed justification is required for any projections in the "Miscellaneous Other" category.

Training Sessions.

The Governor's Budget Office and the Legislative Fiscal Division will conduct two training sessions, scheduled Thursday April 18, 9:30-11:00 a.m. and 1:30-3:00 p.m. in the Capitol Building Room 250. We will review this memo and its attachments, present some specific examples of MBARS narrative, and answer your questions. Please contact Matt Bugni, Executive Budget Analyst, at ext. 4899 if you would like to attend one of these sessions.

Available in Guest\Proprietary:

- ISF Rate Request.doc
- Enterprise Rate Request.doc
- your agency fund table(s).xls (available in September)